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SUBJECT: COLOMBIAN COAL SECTOR BOOMING IN THE FACE OF INFRASTRUCTURE, ENVIRONMENTAL CHALLENGES

¶1. (SBU) SUMMARY. Despite already ranking as the world's fifth largest coal exporter, Colombia's coal sector looks to increase production nearly 65 percent over the next three years. Rich coal deposits in Guajira and Cesar Departments as well as attractive prospects for developing nearby natural gas deposits augur well for the three main international mining firms, including U.S.-based Drummond. The most significant challenges to the industry center on limited public infrastructure and environmental compliance. END SUMMARY.

Production Outlook Good

¶2. (U) Most of Colombia's coal originates in the northeast departments of La Guajira and Cesar, though central Colombian Departments of Cundinamarca and Boyaca also possess high-quality deposits of coal. Western Colombia contains economically viable deposits, but primarily in lower-quality, less profitable coal. While commercial coal mining began to grow in the late 1980s, exports have increased at a much more rapid pace this decade with the U.S. sourcing approximately 70 percent of its global coal imports from Colombia.

¶3. (SBU) Beatriz Duque, Director of Coal at the Ministry of Mines and Energy, told us that she expects total Colombian coal production to reach 69 million metric tons (MT) in 2008, up from 38 million MT in 2000. Duque predicts production to hit 110 million MT by 2010, driven by strong investment terms in Colombia and rising world demand for the country's high-grade bituminous coal. Duque noted that coal currently represents 65 percent of Colombia's mining exports and over 15 percent of total exports--a figure she expects to remain stable despite increasing investment in precious and non-precious metal mining.

Major Players Looking to Expand

¶4. (SBU) International firms Cerrejon, Drummond, and Glencore account for over 95 percent of Colombia's coal exports, with the remainder produced by small local producers. Cerrejon, a conglomerate comprised of BHP Billiton, Anglo American, and XStrata, ranks as the largest coal exporter in Colombia and one of the largest in the world. According to Cerrejon President Leon Teicher, the company's operations at La Mina constitute the largest known open-pit coal export operation in the world.

15. (SBU) As a result of increased investment and rising prices, the company has raised production from 18 million MT in 2002 to over 30 million MT of coal in 2007 valued at USD 1.5 billion. Cerrejon Operations Director Catalina Garcia told us her company expects to increase the production from its 69,000-hectare operation in La Guajira Department to 40 million MT by 2010. She estimates Cerrejon's concession contains 2 billion MT of immediately accessible coal with an additional 1 billion MT available after the company completes a river diversion project. Cerrejon expects to maintain the 40 million MT production level through the completion of its contract with the GOC in 2034. The company exports approximately 53 percent of its production to Europe with 20 percent going to the U.S.

16. (SBU) Birmingham, Alabama-based Drummond is the second largest coal exporter in Colombia. The company began working in Cesar Department in 1987 and exported over 25 million tons of coal in 2007, roughly one-third of Colombia's national production. Over 55 percent of Drummond's exports go to the U.S. with the remainder to Europe. The company's contract with the GOC runs through 2021. Drummond Colombia President Augusto Jimenez, who estimates the company's coal reserves in Colombia reach 2 billion metric tons, told us Drummond plans to double production to 50 million tons by 2010.

17. (SBU) Finally, Swiss-owned Glencore expects to double coal production from its mines in Cesar Department from 5.5 million MT in 2008 to 11 million MT by 2010. Glencore Colombia President Jorge Carvajales estimates his company's coal deposits are sufficient to sustain such production through 2035.

Challenges and Opportunities

18. (SBU) Both GOC and mining company representatives identified infrastructure and environmental responsibility issues as the largest challenges facing the sector. The three international mining companies have invested approximately USD 3 billion in the last decade on private port and rail facilities. However, lags in public investment in adjoining infrastructure led to export bottlenecks. Meanwhile, GOC concerns on environmental compliance have grown. Director Duque emphasized that the most serious environmental problems remain with small local producers, but said the GOC would like to see more active compliance by all three large international companies. She noted that forthcoming licenses and regulation would contain stronger environmental requirements for all companies. In conversations with us, Drummond and Glencore complained about delays in environmental permits and a lack of thorough impact evaluations by the GOC before issuing regulations. Both companies said a GOC requirement for direct loading of coal at all at ocean ports by 2010, designed to reduce coal dust pollution along the Caribbean coast, is not economically or environmentally rational.

19. (SBU) Nevertheless Duque emphasized that investment in the mining sector generally, and the coal sector specifically, has risen steadily due to more flexible contract terms, improved security, and higher coal prices. In addition to major investments by the three existing international producers, Mexican, Brazilian, and German electrical generation companies are reportedly looking into acquiring coal mines in Colombia to secure supplies for their respective plants.

10. (SBU) In addition to coal opportunities, Drummond plans to increase its production of natural gas located near its existing mines. Drummond estimates that its properties in Cesar Department contain at least 2.4 trillion cubic feet of natural gas and its properties in La Guajira Department contain 3.4 trillion cubic feet in natural gas. At present, Colombia's total estimated natural gas reserves stand at 5 trillion cubic feet. Drummond plans to supply the gas for Colombian domestic consumption as well as potentially for

export to Venezuela.
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